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THESIS
A Cost Accounting System for a Hospital

by

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I. Introduction

A. Trends in Hospital Cost Accounting

About forty years ago industrial administrative officials were for the first time becoming aware of the importance of detailed cost analyses of the various operating units in order to manage their enterprises on sound, scientific policies. Since then these cost analyses have provided executives with a fundamental index of the efficiency of the operation of the many units in the enterprise.

Within the past few years hospital administrative officials have finally begun to show an interest in the application of the principles of cost accounting to the management of hospitals. It is becoming an utmost desire of hospital administrators to avoid deficits and to exercise effective control over the expenses of the various units of the hospital. The aim of hospitals, like industrial concerns, should be to furnish services in the demanded quantity and quality at a minimum cost. Such a goal must, of necessity, be accomplished by a general accounting system and cost accounting methods and principles basically comparable to those used in industry. Slight differences in some of the details of the accounting systems of industrial firms and hospitals may exist, but cost

analyses of utmost significance should be a product of the cost accounting system of any type of organization.

The successful application of cost accounting principles in hospitals is gaining recognition and is being increased in the extent to which it is used, as formally trained business men, rather than men trained only in medicine, pharmacy, nursing, and other professions, are being selected as hospital administrators. Hospital administrative officials are thus becoming more capable of interpreting financial reports and of analyzing their significance.

. In business-minded hospitals the knowledge and ability of a skilled accountant is being utilized to an advantage in the preparation of the financial reports, including cost analyses reports, desired by the hospital administrator. The skilled accountant, who has a more thorough and extensive training than the clerical bookkeeper, is an effective adviser to the administrator in the analysis of the costs of the various units, and in the determination of financial policies concerned with operations of the hospital.

Financial reports should not merely represent figures assembled by a poorly trained bookkeeper to a moderately concerned administrator. The cost analyses and detailed reports should portray a complete financial picture of the operations of the hospital. Carefully prepared analyses are not only significant attributes to

a sound organization, but they also facilitate reliable comparisons of costs and statistical data between hospitals and from period to period within a hospital. (1)

B. The Significance of Hospital Costs

The importance of a cost accounting system in a hospital at the present time can be realized by observing the increase in the cost per patient day during the past ten years in a typical charitable hospital as illustrated in Exhibit 1, page 5. It is interesting to note that in this typical hospital, the total costs per patient day in 1947 were three times what they were in 1937.

Cost accounting for a hospital must be a systematic and continuous procedure of maintaining cost records, which are an integral part of the general accounting system, for the purpose of determining the cost of rendering a specific service. The cost accounting system provides for the allocation of all of the cost elements which make up the entire cost of operating a unit or department, whereas if just a general accounting system were maintained,

1. Bradley, Eugene H., "What are the Functions of Cost Accounting in the Hospital?", Hospital Management, September, 1945, pages 60-61.

certain cost elements are not likely to be allocated. (2)

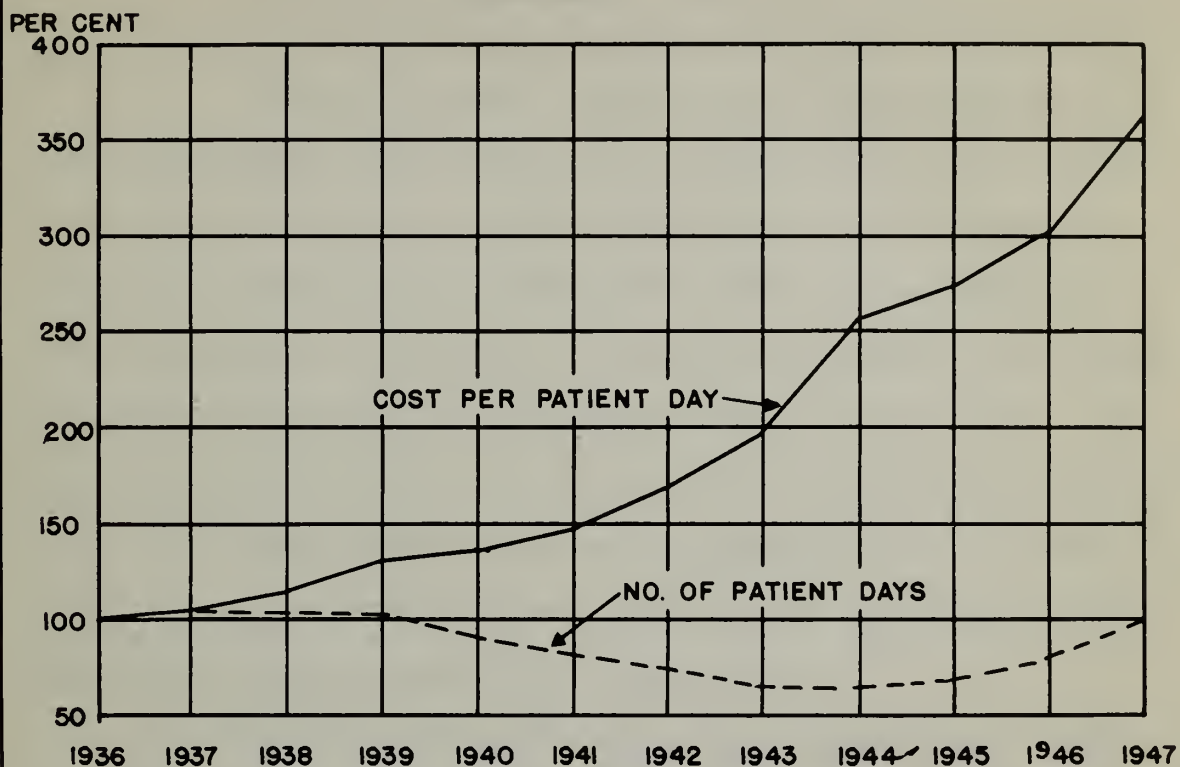
C. The Purpose of This Thesis

It is the purpose of this thesis to designate the cost accounting procedures and business methods which would be most efficient and most economical for a charitable hospital to adopt. Although this thesis is written to apply most suitably to a 250-bed hospital, the information presented could satisfactorily be adapted to either a larger or a smaller hospital.

It is recognized that, just as in industry, so in hospital administration, standardization of definition of terms is essential. During the past fifteen years the American Hospital Association has strived to establish uniform definitions of hospital terms and uniform classification of accounts. The definitions and terms used in this thesis represent those most commonly used in hospitals today.

NO. OF PATIENT DAYS AND COST PER DAY

1936-1947



Source: Hankins, Clinton G., "Hospital Horoscope",
Pathfinder Service Bulletin, July, 1948, page 4.

II. The Functions and Objectives of a Hospital Cost Accounting System

One of the most significant tools employed by administrative officials of any organization is an effective cost accounting system which provides information regarding detailed and classified costs of operations. The periodical statements of income and expense may reveal a summarized result of the operation of the hospital, but it is only through cost accounting reports and cost analyses that the administrator may be advised of future trends and may have an orderly device to aid him in forming opinions that will vitally affect his institution.

An effective cost accounting system for a hospital should be established and maintained having as a goal specific functions and objectives, among which should be included the following factors.

- A. To provide an effective guide in determining adequate and equitable rates for services rendered.
- B. To aid in the development of sound financial policies relative to the financial desirability of expansion or contraction of specific hospital services.
- C. To provide financial reports containing information which may be used to compare operating

costs with those of other similar hospitals performing similar services.

- D. To serve as a guide in the preparation of the hospital budget.
- E. To reveal possible reductions in the cost of operations and services.
- F. To provide relative data concerning the efficient utilization of personnel, equipment, and space.
- G. To permit better reporting in order to inform and educate the public and interested organizations as to the cost of rendering hospital care.

A. Equitable Rates

It should be recognized in any hospital that the rates should be based on the costs of the services, whether partial or full reimbursement is desired. Effective control and standardization of all hospital rates and charges such as the daily patient rate, the operating room charge, the costs of pharmaceuticals, and X-ray service charges, are essential. Since a cost accounting system makes actual costs available, the administrative officials are able to effectively set the rates for future periods that will

result in the desired income. (1)

B. Sound Financial Policies

Just as an industrial manager may find it advantageous to purchase rather than to manufacture certain materials, so the hospital administrator may determine that it is financially advisable to refer patients requiring certain services to other hospitals or clinics. The administrator should always be informed concerning the financial status of special service units and general service departments in order to have all the essential information needed to determine if certain services should be expanded, maintained at the existing level, or discontinued. For example, the costs of the operation of a Dental Clinic may exceed equitable rates, and since patients may be referred to private dental offices, it may be advantageous to discontinue rendering dental services. Likewise, information should be presented enabling the administrator to determine if the laundry services of the hospital laundry are as efficient and economical as the services of a commercial laundry.

C. Comparative Financial Reports

A hospital cost accounting system should provide information and such cost reports that will enable administrative officials to make comparisons of operating costs with those of other similar hospitals. However, discretion must be used in reaching any decisions, for external as well as internal factors may cause deviations of costs among different hospitals. Significant differences may exist in the wage scale, in the relative cost of food and other materials, and in the cost of services of utilities in specific communities. It is likewise essential to ascertain the degree of similarity in the cost accounting systems. However, if the external factors are kept in mind, internal inefficiencies may be revealed. When discrepancies are noted, a thorough study should be made, followed by immediate action to correct inefficient conditions. (1)

D. The Preparation of Hospital Budget

Since a cost accounting system furnishes details of the costs of the various special service units and the general service departments, accurate budgeting is made more possible. Through using historical detailed costs adjusted

1. Bradley, Eugene H., "What Are the Functions of Cost Accounting in the Hospital?", Hospital Management, September, 1945, page 62.

as deemed necessary, and through estimating the number of patients to be admitted or the services to be rendered by the various units, administrative officials are able to make effective forecasts of the cost of operating a unit or department.

E. Cost Reductions

Since the customary periodic financial statements usually show merely the amounts of various expenses, administrative officials are extremely limited in the opportunity to analyze the detailed factors making up the expenses. Detailed cost accounting reports, revealing the costs of operating the various special service units and general service departments, enable the administrator to have an effective guide in attempting to bring about cost reductions.

Probably the most significant application of cost accounting data is the period-to-period comparisons between the total costs and the detailed costs of the various activities. The effectiveness of this application is seen when a study reveals that an increase in costs is due to some factor which can be eliminated or corrected. The investigation or study can be effectively conducted only if the necessary cost data is available. Almost all of the special service units and general service departments are adaptable to such period-to-period comparisons. An example

of such a comparison is furnished by the report of the dietary department. Any significant change in the average cost per meal served to patients should warrant some investigation as to the causes for the deviation. Adequate investigation based upon the comparative cost data will often lead directly to the cause of wasteful expenditures, such as inadequate supervision or unsound food purchasing policies.

An adequate cost accounting system also permits comparisons between like activities or units within the hospital. Although this particular aid to administrative officials may be somewhat limited, there are some units which permit effective comparisons. In the dietary department, for example, comparisons can be made between the average cost per meal as prepared by the several kitchens. Although it is recognized that the cost of food may vary between kitchens, it is altogether possible that a comparison of a specific type of cost may reveal an inefficiency in the preparation of the food. Such comparisons may also tend to instill a competitive, cost-minded feeling among the dietitians and chefs of the various kitchens, and thus achieve a lowering of costs.

F. Measure of Efficiency

It is essential that an employee of any business

organization maintain a high level of efficiency. Adequate cost analyses enable the hospital administrator to fix the responsibility for effective and efficient operation of plant and equipment and of service-rendering activities. The cost reports then serve as indices concerning the level of efficiency of the employees.

G. Public Reporting

Detailed cost information enables a hospital to deal more adequately with other organizations by justifying rates in relation to operating costs. Data on actual cost of a service will justify to the public an increase in the rate to be charged. The information may also be used in public relations work.

III. The Classification System for the Distribution of Costs

In order to allocate all of the hospital expenses to the various functional units, special service activities, and departments, it is necessary to establish a system of classification. The system of classification should be formulated on the basis of the specific cost information that is desired.

The various activities and departments of the hospital are classified into cost centers to which all expenses are ultimately charged. In order to properly allocate the cost of services rendered, each cost center is charged with the amount of services rendered to it by other cost centers, as well as with the direct expenses applicable thereto. It is then necessary to further classify the costs of each cost center into individual units of operation. (1)

For the purpose of this thesis three classes of cost centers will be used, major cost centers, special service cost centers, and general service cost centers.

A. Major Cost Centers

The major cost centers are determined by the four

1. Harris, Walter O., Institutional Cost Accounting, 1944, pages 8-10.

major types of patients; namely, diabetic, cancer, general, and out-patients. The nature of the physical outlay of the hospital plant suggests such a classification for the major cost centers, for all of the in-patients of each class are located in a separate physical unit of the hospital.

The major cost centers which shall be referred to in this thesis are as follows:

1. Cost Center 301 - Diabetic Hospital
2. Cost Center 302 - Cancer Hospital
3. Cost Center 303 - General Hospital
4. Cost Center 304 - Out-Patient Department

Although the out-patients are cared for in the same building as are the general hospital patients, a separate cost center is used to cover the activities of the Out-Patient Department. A great amount of difference in the services rendered to out-patients exists as compared to regular hospital patients.

The patient day, the care and treatment of one patient for one day, is the statistical basis for showing the cost of the services rendered in the first three major cost centers. The cost per patient day is computed by dividing the total cost for each major cost center by the total number of patient days. A visit is the basis for showing the cost of the services rendered in the Out-Patient Department, with the appropriate computation resulting in a cost per visit.

B. Special Service Cost Centers

The special service cost centers consist chiefly of those activities rendering services specifically for the patients. After the expenses have been charged to, accumulated, and totalled for these special service cost centers, they are apportioned to the major cost centers.

The cost centers included in this thesis as special service cost centers are described in the following paragraphs.

1. Cost Center 201 - Operating Room

The maintenance of adequate cost records in the Operating Room provides important information to the administrative officials, permits effective redistribution of costs to the major cost centers, and furnishes an accurate basis for determining the fee to be charged to the patient.

2. Cost Center 202 - X-Ray Department

The X-Ray Department renders to hospital patients and out-patients services in the nature of X-Ray pictures and deep therapy treatments. Distribution of costs to major cost centers as well as the accurate establishment of fees to be charged, result when cost records are maintained.

3. Cost Center 203 - Laboratory

The Laboratory performs services for all types of patients. Distribution of the costs of the Laboratory are made to the major cost centers on the basis of the amount of work done for each.

4. Cost Center 204 - Pharmacy

The Pharmacy makes issues of pharmaceuticals to all types of patients on the basis of requisitions, and fills prescriptions for and sells toilet articles and miscellaneous commodities to patients, employees, and visitors.

5. Cost Center 205 - Dental Clinic

The Dental Clinic renders services to in-patients and to diabetic out-patients who are reporting for periodic examinations. The clinic performs services only in the nature of dental prophylactic treatments, X-Ray services, and extractions. Costs of the Dental Clinic are distributed to the major cost centers on the basis of the number of visits of each class of patients weighted by the relative amount of service performed for each patient.

6. Cost Center 206 - Physiotherapy Division

The Physiotherapy Division furnishes services to all types of patients in the nature of massages, ultra-violet and heat treatments, radio-therapy, diathermy, and

whirlpool treatments. The treatments are given through the use of heat, light, electricity, etc., without the use of drugs.

7. Cost Center 207 - Radium Unit

The Radium Unit renders services to in-patients only. Each treatment is weighted from one to ten since the amount of service that is received by different patients may vary greatly.

8. Cost Center 208 - Medical Care

To the Medical Care Cost Center are charged the salaries of staff and resident doctors, the salaries of internes, and the cost of any supplies or pharmaceuticals not used by any particular unit.

9. Cost Center 209 - Nursing Care

The cost of providing nursing care to in-patients and the general administrative expenses of the nursing department are charged to the Nursing Care Cost Center.

10. Cost Center 210 - Nursing School

The Nursing School Cost Center is charged with the cost of the nursing school, allowances paid to student nurses, and expenses incurred for the benefit of student nurses.

11. Cost Center 211 - Ambulance Service

The Cost Center for Ambulance Service is charged with the expenses of operating and maintaining the ambulances and with the salaries of the attendants and drivers.

12. Cost Center 212 - Medical Research and Education

To the Medical Research and Educational Cost Center are charged all expenses which can be attributed to medical research or education.

13. Cost Center 213 - Special Administrative Services for Patients

The Cost Center for Special Administrative Services for Patients is charged with costs of such activities and offices as the Volunteer Service Office, the Library, Social Service, Patients' Records Office, the Cashier's Office, the Credit Office, and the costs of any other unit or activity rendering non-professional services to patients not chargeable to any other cost center.

C. General Service Cost Centers

The general service cost centers comprise those service departments necessary to operate the hospital, but which may or may not furnish services directly to the patients. Most of these general service departments render services or furnish commodities to other activities of the

hospital. Administrative officials find the detailed costs of these activities to be a helpful tool in effective management. Allocation of expenses to these cost centers likewise permits effective redistribution to the major cost centers. In the following paragraphs a brief discussion is given for each of the general service cost centers.

1. Cost Center 101 - Administrative Department

The Administrative Cost Center is charged with such expenses as the salary of the Administrator and the Assistant Administrator; the expenses of the Accounting Office and the Personnel Office, and any other expenses which cannot effectively be charged to other cost centers.

2. Cost Center 102 - Purchasing Department

All goods and commodities, except food, are purchased by personnel of the Purchasing Department, who are also responsible for maintaining the necessary records pertaining to the commodities. The costs of operation of the Purchasing Department such as salaries of personnel and cost of maintaining storerooms, are distributed to the other cost centers on the basis of the relative number of issues to each.

3. Cost Center 103 - Housekeeping Department

The Housekeeping Department is responsible for all

janitor, elevator, and window-cleaning service, for the maintenance of the hospital grounds, and for fire and police protection. The costs charged to this cost center are distributed to the other cost centers on the basis of the relative space actually used by each cost center.

4. Cost Center 104 - Laundry and Linens Department

The Laundry and Linens Department is responsible for laundering all linens, uniforms, etc., required by the hospital, as well as some personal items. The costs of operating this department are distributed to the other cost centers on the basis of the relative weight of laundry done for each cost center.

5. Cost Center 105 - Engineering Department

The Engineering Department is charged with the cost of maintaining and repairing the physical facilities of the hospital, including such expenses as the salaries of electricians, painters, and carpenters, and the costs of supplies and services purchased.

6. Cost Center 106 - Dietary Department

The Dietary Department is responsible for the purchasing of all food to be consumed by patients, employees, members of the medical staff, and visitors; for the preparation of all of the meals; for the operation of the pay cafeteria; for the maintenance of adequate records of food

purchased and consumed; and for the operation of the food storerooms. The costs of the Dietary Department, except the costs of operating the pay cafeteria, are distributed directly to the major cost centers. The hospital cafeteria, available to all personnel except patients, is operated on a non-profit, pay basis, and is charged with all costs pertaining to its operation.

D. Classification of Expense Accounts

In order for the cost accounting system to be adequate, the reports prepared for each of the cost centers and submitted to the administrative officials, should show the details of the costs. Such information can be revealed if an effective account classification is adopted. A detailed breakdown of total costs of a particular cost center can be accomplished through the following classification and symbol system. The classification of the indirect expense accounts follows the cost center classification for special service and general service cost centers. Accounts are also included for the several types of direct expenses of each cost center.

1. Indirect Expenses - 101-299

101 General Administration - the expenses of the General Administrative Cost Center applicable to the cost center

- 102 Purchasing - cost of operation of Purchasing Department applicable to the cost center
- 103 Housekeeping - cost of operation of Housekeeping Department applicable to the center
- 104 Laundry and Linens - cost of laundry services rendered to the cost center
- 105 Engineering - cost of operation of Engineering Department applicable to the cost center
- 106 Dietary - cost of operation of Dietary Department applicable to the cost center
- 201 Operating Room - cost of Operating Room applicable to the cost center
- 202 X-Ray - cost of X-Ray services rendered to the cost center
- 203 Laboratory - cost of Laboratory services rendered to the cost center
- 204 Pharmaceuticals - cost of pharmaceuticals issued to the cost center
- 205 Dental - cost of operating Dental Clinic applicable to the cost center
- 206 Physiotherapy - cost of Physiotherapy services rendered to the cost center
- 207 Radium - cost of operating the Radium Unit applicable to the cost center
- 208 General Medical Care - cost of General Medical Care applicable to the cost center
- 209 Nursing Care - cost of Nursing Care applicable to the cost center
- 210 Nursing School - cost of operating the Nursing School applicable to the cost center
- 211 Ambulance - cost of Ambulance services rendered to the cost center
- 212 Medical Research and Education - cost of Research and Educational services rendered

to the cost center

213 Special Administrative Services - cost of
Special Administrative Services rendered
to the cost center

2. Direct Expenses - 401-499

401 Salaries and Wages - payroll applicable to
the cost center

402 Materials and Supplies - cost of materials
and supplies issued to the cost center

403 Depreciation of Plant and Equipment -
depreciation expense allocable to the cost
center

404 Purchased Services - cost of services pur-
chased by the cost center

405 Raw Food - cost of food allocable to the cost
center

It is evident that all of the expense accounts are not applicable to each cost center. For example, none of the expenses of the Laboratory are allocable to a general service cost center. On the other hand, a major cost center will be charged with a portion of the balance of each of the expense accounts listed.

IV. Procedures for Accumulating Costs

It is essential that effective accounting records be maintained in order to accurately accumulate the costs for the various cost centers. The introduction of a cost accounting system into a hospital does not result in abandoning the general accounting system already in operation, although it may be necessary to make some adjustments in order that a co-ordinated relationship will exist between the cost and general accounting systems.

Such general accounting records as the general ledger, the cash receipts journal, and the cash disbursements journal will continue to be kept in operation.

A. Cost Ledgers

When a cost accounting system is introduced, the most important new records which must be adopted are the cost ledgers. The cost ledgers are devised in such a manner as to permit an efficient method of accumulating costs for each cost center.

Basically, only two different forms of the cost ledger are required, one to record the costs of rendering medical services to patients, and one to record the costs of rendering general services. The form should be flexible, however, to allow for the specific requirements of a particular cost center. The cost ledgers may take the form of

those illustrated in Exhibits 2 and 3, pages 27 and 28.

In addition to the two cost ledgers illustrated, the stores ledger cards used in maintaining perpetual inventory files, become a major record in a hospital cost accounting system.

B. Sources of Data for Direct Charges

Information is recorded on the cost ledgers from cost ledger vouchers prepared in the cost accounting office. The information required in the preparation of the cost vouchers is obtained from many sources. Requisitions for stores show the quantity and value of stores issued from the storerooms, as well as the cost center that receives the stores. The payroll is arranged by cost center and gives adequate labor cost information. Bills and invoices provide information as to the cost of contractual or purchased services. Depreciation charges are determined from data stated on the plant ledger cards. The insurance register lists information regarding the premium cost of the various insurance policies in effect. All of the costs for each cost center are accumulated and then summarized on the ledger vouchers, which are used at the close of an accounting period to make summarized entries on the cost ledgers.

C. Distribution of Costs Between Cost Centers

The distribution of costs between cost centers must be accomplished after the direct costs have been accumulated and entered on the cost ledgers of each cost center. Through the application of various standards and bases, it is possible to obtain an equitable distribution without resorting to algebraic solutions, which, although resulting in accurate distributions, give rise to a great deal of complexity. For example, the cost of operating the laundry is distributed to the other cost centers on the basis of the relative number of pounds of laundry done for each cost center.

The distribution of costs must be such that each cost center is charged for the amount of services or materials received from all other cost centers. The major cost centers are ultimately charged with all costs.

In order to prepare the periodic cost reports, it is necessary only to record in suitable form, the information presented on the cost ledgers. The cost reports are then made available to all interested administrative officials.

V. Accounting for the Payroll

A. Timekeeping

Even though most hospital employees are paid on a salary basis, it is essential to have effective time-keeping procedures, not only to provide accurate information for cost records, but also to insure control. The use of a time clock often is not adaptable to a hospital for obtaining adequate timekeeping, for usually there are many entrances and exits to the hospital buildings. Therefore, a procedure should be adopted and maintained in which department heads, supervisors, or other responsible personnel record the necessary information for a group of employees.

The record for timekeeping provides for showing the name of the employee, the department or cost center in which he is employed, his position, and a space for each day of the year. Each day the supervisors record in the appropriate space, through the use of symbols or letters, the fact that the employee is present or absent, and if absent, the reason therefore. On the last day of each pay period, which might be the fifteenth and the last day of each month, the records for timekeeping are sent to the general accounting office. It is then the responsibility of the payroll clerk to summarize the data for each employee showing the total number of days present, absent with pay,

and absent without pay.

The individual employee record for timekeeping is a more convenient device for recording information for the payroll than is the ordinary timekeeping book which lists all employees for each pay period. The use of the individual records eliminates the necessity of having to copy the name of each employee with his position at the beginning of each pay period. It is possible to arrange the individual records in any order desired by the supervisor or the payroll clerk. It is a simple matter to place the record of any new or transfer employee in its proper place at any time during a pay period. Timekeeping information for one employee can be obtained at any time by any authorized person without having to take the corresponding information for all employees in the same group.

The records for timekeeping are returned to the supervisors by the general accounting office after the payroll summaries have been prepared for the period. An employee's record for timekeeping is illustrated in Exhibit 4, page 32.

B. Employee Earnings Records

The general accounting office should also maintain an earnings record for each employee. This record, covering a period of one year, provides for the name of

the employee, position, department, salary, gross earnings, deductions from earnings, and net earnings for each pay period.

In order to facilitate the preparation of cost ledger vouchers, earnings records are grouped by chargeable cost centers. The information entered on the earnings records include data supplied by the personnel office and data revealed on the employee records for timekeeping. Pay roll checks, completed by the fifth and twentieth of each month, are distributed to the employees through the various supervisors.

C. Distribution of Payroll Costs

Pay roll summaries, prepared simultaneously with the payroll checks, accumulate the necessary information for the distribution of labor costs to the various cost centers. The total of the gross earnings column on the payroll summary sheet of each cost center is recorded on a cost ledger voucher. Postings of the vouchers can then be made to the appropriate cost ledger of each cost center.

VI. Accounting for Materials and Supplies

A hospital cost accounting system, just as any cost accounting system, requires effective procedures in the control of and in accounting for materials and supplies. Although the exact procedure may differ in different hospitals, it is paramount that the specific procedure adopted be strictly adhered to by all personnel. Since it may be economical to purchase some items in large quantities, it is essential that the hospital have adequate storage facilities.

A. Requisition for Materials

The requisition for materials is of primary importance in the cost accounting system, for it is the source of information for distributing to the cost centers the costs of materials issued from the storerooms. The requisition for materials form provides for the date of requisition, the date the materials are required, the location to which the goods are to be delivered, the name of the department or cost center to be charged, and the requisition number. Space is provided in the body of the form for describing the materials requested, the desired quantity of each item, and the unit of measurement of each item. The requisition for materials is illustrated

in Exhibit 5, page 39.

The requisition is prepared and must be signed by the person requesting the materials, and then approved by the head of a department or some other authorized employee. Although emergency situations may warrant submitting requisitions to the storerooms personnel at any time, requisitions covering items ordinarily used from day to day should be submitted only once per week.

The requisition for materials is prepared in triplicate, the first two copies are sent to the storeroom, the third copy is retained by the using department. After receipt of the requisition, a storeroom employee checks the stock cards to determine if the materials requested are on hand. If the materials are on hand, the requisition is filled out and the quantity of each item that is issued is entered on both copies of the requisition. When the porter making the delivery assembles the materials and supplies, he signs the duplicate copy and takes the original copy to the using department to be signed by the employee receiving the goods. After the original copy is returned to the storeroom by the porter, the employee in charge of the storeroom files the duplicate copy by date and requisition number, and forwards the original to the accounting office.

The bookkeeper in the accounting office makes

entries on the perpetual inventory cards showing the date of the requisition, the requisition number, the quantity of each item issued, and the quantity of each item remaining on hand. The unit price of each item as shown on the inventory cards is entered on the requisition. At any convenient time prior to the close of the month, the bookkeeper computes the extended amount for each item and totals the extended amounts for each requisition.

The original of each requisition that has been extended and totalled is filed by the chargeable cost center until the close of the month, when the total charge for each cost center is determined by adding the total amounts of each requisition. Cost ledger vouchers are then prepared showing the amount of the charge for each cost center. The cost ledger voucher is the source for making the entries to the various cost ledgers and for making the credit entries in the stores control account.

If items on a requisition for materials are not on hand in the storeroom, a purchase requisition is prepared by a stores clerk. This purchase requisition, approved by the person in charge of the storeroom, is sent to the purchasing office. After the purchasing agent has obtained quotations and selected the vendor, he prepares a purchase order in four copies. The original is given to the vendor, the second copy is filed in a vendor file, the third and fourth copies are sent to the store-

room which is to receive the materials or supplies. Upon receipt of the materials in the storeroom, the storeroom clerk enters the necessary information regarding the receipt on the third copy of the purchase order and then files the third copy by purchase order number, and forwards the second copy, with adjustments and extensions entered, to the accounting office.

The general accounting office receives all vendor's bills which are matched with the second copies of the purchase orders. Checks are prepared and sent to the vendor after it is determined that the bills are proper and correct.

B. Inventory Control

For the purpose of controlling the inventory of material and supplies and of obtaining unit prices for the requisitions, a visual perpetual inventory should be maintained. A common card record takes the form of a set of three cards for each commodity, giving all information regarding all receipts, issues, and balances on hand, as well as unit prices. Special files are obtainable for such a set of cards. Two of the cards taken together are just as large as the third card; therefore, if one is referring to a particular item in the file, all the necessary information will be revealed by looking at one place.

One of the smaller cards has columns to show the quantity received, the date of receipt, the unit price, and the extended amount. At the top of this card spaces are provided for listing the names of vendors. When goods are received entries are also made to record the purchase order number and the number of the vendor as shown at the top of the card.

The other of the two smaller cards provides for recording the total quantity of each item received during each month, with sufficient space to cover a ten-year period. This card, therefore, represents the permanent record of the quantity of materials and supplies received.

On the large card are columns to show the quantity received or the quantity issued, the purchase order number or the requisition number, the date of receipt or issuance, and the quantity remaining on hand. A portion of this card is exposed to give a description of the commodity, the unit of measurement, and the status of the quantity on hand in relation to a minimum amount which should be carried in stock.

C. Inventory Pricing

The value of the quantity on hand is computed only when physical inventories are taken, such computations being made in an inventory book. Physical inventories are

ordinarily taken at the close of each month.

The unit price used in pricing requisitions and physical inventories, may be determined by using the moving average unit cost method. A new unit cost is computed upon each purchase of a particular item. The total value of the goods on hand, including the value of the goods just purchased, is divided by the total quantity of the goods on hand, including the goods just received in the purchase.

REQUISITION FOR MATERIALS					
PLEASE ISSUE THE FOLLOWING ITEMS TO:			REQUISITION NO. _____		
LOCATION _____			DATE _____		
CHARGE TO _____			DATE REQUIRED _____		
QUAN. DESIRED	UNIT	DESCRIPTION	QUAN. ISSUED	UNIT PRICE	AMOUNT
TOTAL					
REQUESTED BY			APPROVED BY		
RECEIVED BY			ISSUED BY		

VII. Accounting for Plant and Equipment

A. Depreciation Charges as Elements of Hospital Costs

Since hospitals ordinarily obtain most of the funds used to purchase fixed assets by public voluntary subscription, it has generally been the practice not to take into account depreciation charges in the belief that when the buildings and equipment become worn out or obsolete, the process of donation will be repeated. Those who favor ignoring the depreciation charges believe that, since the public has already contributed to the purchase price of the fixed assets, another charge to the public for the same amount would occur if hospital rates were set to include such depreciation charges.

In a hospital cost accounting system, however, it is essential that depreciation charges be included in the determination of hospital costs. Inclusion of the depreciation charges enables hospital administrative officials to more accurately determine whether or not certain services should be purchased, or rendered directly by the hospital. If several methods of carrying on a particular activity are possible, adequate costs of each method can be computed only if depreciation charges are included. If rates charged to patients are to be based on costs of operations, then all costs, including depreciation charges, must be taken

into consideration, whether complete or only partial reimbursement of costs is desired. If there are to be effective comparisons of the hospital costs with the costs of other institutions, then the cost reports must be fully detailed and complete. Thus, completeness and effectiveness in the cost reports is possible only if depreciation charges are determined and included in the reports. (1)

Building and equipment ledger cards or sheets are the important records which should be adopted and maintained for the purposes of establishing control and accountability over the fixed assets and of computing the depreciation charges.

B. The Initial Physical Inventory

Since ordinarily a hospital does not have a complete record of all its fixed assets, it is necessary to take a physical inventory and obtain the desired information for each item. When the physical inventory is being taken each item should be classified by cost center and given an identifying number, within the cost center.

Perhaps the most economical method for obtaining the necessary cost information for those items of which no

1. Harris, Walter O., Institutional Cost Accounting, 1944, page 31.

cost data are on record, is to make inquiries to manufacturers and distributors of hospital equipment. It is therefore necessary during the inventory taking to record detailed information regarding each item, such as a full description of the item, the approximate date each item was acquired, the vendor or manufacturer, the make and model of the item, details regarding the motor, the use to which the item is put, the approximate time that the item is used during a specified period, and the hospital engineer's estimate of the remaining life of the item. By referring to catalogs of hospital equipment and of other general equipment, and by making direct requests to vendors for cost information, it is possible to obtain the desired information for most items to be recorded on the plant ledger cards. In order to obtain the necessary information regarding the hospital buildings and some of the equipment it may be necessary to call in a firm of appraisers.

C. Plant Ledger Cards

On the basis of the data obtained from the various sources, a plant ledger card should be prepared for each item, entering the information stated above. The amount of depreciation charge per month should be recorded on each card. Since the cards are grouped by cost center, the total depreciation charge per month for each cost center

can be determined. A plant ledger card is illustrated in Exhibit 6, page 45.

A new ledger card is prepared as soon as possible after the receipt of any new equipment, and is placed in the proper cost center group. An entry is made on a ledger card to record the retirement of an item of equipment, and the cost center is charged if the cost or appraised value is greater than the total accumulated estimated depreciation on the item. The cost center is credited for any trade-in consideration or cash receipts upon sale of a fixed asset.

D. The Distribution and Posting of Depreciation Charges

At the close of each month the total depreciation charge for each cost center is obtained by totalling the depreciation charge for each item in the cost center as shown on the plant ledger cards. Cost ledger vouchers are prepared and become the source of entries on the cost ledgers and to the general ledger account, accumulated depreciation of plant and equipment. The balance in this account represents the total amount of depreciation since the various fixed assets were appraised or acquired.

It is an advisable practice to take a physical inventory of all fixed assets at least once each year. This is essential not only for the purpose of control, but

it also permits, when necessary, the adjustment and correction of the estimated remaining life of the item.

PLANT LEDGER CARD						
DESCRIPTION OF ITEM				COST CENTER		
				SERIAL NO.		
				MODEL		
PURCHASED FROM				CATALOG NO.		
MANUFACTURER				CONTRACT NO.		
PURCHASE ORDER NO.				VOUCHER NO.		
DATE INSTALLED						
COST INSTALLED				RESIDUAL VALUE		
APPRAISALS						
DATE	APPRAISOR	CONDITION	ESTIM. REMAIN. LIFE	RATE	YEARLY CHARGE	MO. CH.
DISPOSITION						
DATE	ACCUMULATED DEPRECIATION	TRADE-IN OR CASH VALUE	GAIN OR LOSS	TO WHOM		

VIII. Accounting for Sundry Costs

A. Purchased Maintenance Services

It is usually the responsibility of the Purchasing Department to make the necessary arrangements for purchasing services. These services that are purchased by the hospital are requisitioned and ordered in the same manner as materials and supplies. When it is necessary to obtain outside services the requiring department prepares a requisition approved by the head of the department or other authorized employee.

All requisitions for services of a mechanical nature are forwarded to the Engineering Department. If the engineering personnel determine that outsiders rather than hospital employees must perform the services, a proper notation is entered on the requisition after which it is sent to the Purchasing Department. When the services are purchased, a purchase order is prepared, of which one copy is sent to the cost accounting office. The bill for the services is then routed through the cost accounting office at which time the amount of the bill is entered on the purchase order. The priced purchase orders are filed by cost center until the close of the month when they are totalled for each cost center and the amounts entered on the cost ledgers.

B. Services Rendered by the Engineering
Department

If, when a requisition for services is submitted to the Engineering Department, the chief engineer or the person in charge of maintenance decides that the services can be performed by hospital employees, a work order is prepared in the engineer's office. This work order is the authorization for employees of the Engineering Department to do work in other departments or cost centers.

The employee actually performing the services is responsible for recording on the work order the type and quantity of materials used and the total number of hours of labor the job required. Before the work order is returned to the engineer's office signifying that the job has been completed, the signature of an authorized employee of the department making the request is secured. Upon receipt of the completed work order, the clerk in the engineer's office enters the value of the materials, supplies, and labor expended on the job.

At a convenient time prior to the close of the month, each completed work order is extended, totalled, and forwarded to the cost accounting office where it is placed in the appropriate cost center group. At the end of the month the work orders for each cost center are totalled in order to ascertain the direct costs to be entered

on the various cost ledgers. In addition to these direct costs of materials and labor, however, a portion of the cost of operating the Engineering Department must be distributed to the various cost centers. A maintenance work order is illustrated in Exhibit 7, page 49.

C. Deferred Charges

Special consideration must be given to those services paid for in a month prior to the month in which the services are received. The costs of these services are set up as deferred charges in the cost ledgers with information as to the amount that is to be charged as a monthly expense to each cost center. Typical deferred charges accounts include insurance and major repairs to equipment.

IX. Preliminary Distribution of Costs

A. General Procedure for the Distribution of Costs

As soon as all of the direct expenses for a particular accounting period have been entered in the various cost ledgers, it is necessary to charge each cost center with its indirect expenses in order to arrive at the total cost of operating the activity. Indirect expenses are charged to the various cost centers by apportioning the expenses of operating a particular cost center to those activities receiving the goods or services.

The first step in the distribution of costs is to apportion the direct expenses of each general service cost center to those centers which are benefitted. This phase of the apportionment of costs is a preliminary distribution and results in showing, within a reasonable degree of accuracy, the total cost of operating each general service cost center. The results of this preliminary distribution are recorded in a cost schedule as illustrated in Exhibit 11, page 62.

The final distribution of costs consists of allocating the indirect expenses of the general service cost centers to the special service and major cost centers; and then, of apportioning the total costs of operating the

special service cost centers to the major cost centers so that finally, the major cost centers absorb all of the costs of the hospital. Cost schedules as illustrated in Exhibits 12 and 13, pages 63 and 64, are prepared to summarize this final distribution of expenses.

Because of the interchange of services among the various general service cost centers, complexity arises in the preliminary distribution of costs. Although the use of algebraic computations in the inter-cost center distributions would result in the most nearly accurate solution, equitable distributions may be obtained through the use of standards and bases.

"In determining bases it is usually necessary to effect a compromise between a theoretical perfect method of distribution and one that is generally suited to the particular hospital for all practical purposes."(1)

As in any cost accounting system for a profit-making concern, so in a cost accounting system for a hospital, it is essential that the choice of the units of measurement for the various cost centers be the best and the most useful units that can be adopted.

In order to facilitate the apportionment of expenses among the appropriate cost centers, work sheets should be

1. Roswell, Charles G., Accounting, Statistics, and Business Office Procedures for Hospitals, 1946, page 259.

used for each cost center, the expenses of which are to be distributed. The work sheet has a column for listing all of the general service, special service, and major cost centers; a column showing for each cost center the actual number or the quantity of the particular unit of measurement; the per cent applicable for each cost center in the preliminary distribution; for each cost center the actual number or the quantity of the unit of measurement for the final distribution; and the percent applicable in the final distribution. The completed work sheets are the sources for posting the indirect expenses for the cost schedules, which in turn become the sources of information for the preparation of the cost report to be considered in Section XI.

B. Distribution of Direct Costs of General Service Cost Centers

1. Administrative Department

The direct expenses of this cost center include the salary and office expenses of the Administrator and the Assistant Administrator; the expenses of the Accounting Office and the Personnel Office; and other expenses indirectly affecting all other general service cost centers, which, however, are not chargeable to any particular one.

For the preliminary distribution, the apportionment

of expenses of the General Administrative Cost Center is on the basis of the payroll of all of the cost centers. Payroll is the most logical base for this distribution because general administration is quite closely related to personnel.

On the worksheet prepared for the distribution of general administrative expenses, the amount of salaries for each cost center is entered. The percentage of each cost center's payroll to the total amount of the payroll represents the percentage of general administrative expenses applicable to the various cost centers. The total of the general administrative expenses distributed to the other cost centers is the total of the direct expenses as shown on the cost ledger. The worksheet showing the preliminary distribution of the direct expenses of the General Administrative Cost Center is illustrated in Exhibit 8, page 59.

2. Purchasing Department

The Purchasing Department is responsible for purchasing all equipment, materials, and supplies, except food; for keeping adequate storeroom control records; and for maintaining the storerooms. The cost of operating the Purchasing Department must be charged to all of the cost centers receiving materials and supplies. The base for the preliminary distribution is the relative number of issues made to each cost center, which information is determined from the data on the stores requisitions for materials.

The worksheet for the distribution of the costs of the Purchasing Department, which is similar in nature to the worksheet of the General Administrative Cost Center, is illustrated in Exhibit 9, page 60.

3. Housekeeping Department

The costs of janitor, elevator, and window cleaning services; of maintenance of the hospital grounds; and of fire and police protection are charged to the Housekeeping Department. The direct expenses of operating this cost center are apportioned to the other cost centers using area as the base for the preliminary distribution. Cubic feet, rather than square feet, should be used if the ceilings throughout the hospital are not of fairly uniform height. The measurements, which can be made by the engineer or some other employee of the hospital, should include only the space actually used by the cost centers. Corridors, lobbies, and staircases not directly assignable to a specific cost center should be omitted, for they will be absorbed proportionately by all cost centers. The worksheet showing the distribution of the costs of the Housekeeping Department is illustrated in Exhibit 10, page 61.

4. Laundry and Linens Department

Generally, the hospital Laundry performs two types of services. Laundry for certain employees, who

must pay for the service, and hospital laundry of a general nature is done. As linens, towels, personal items, etc. are received at the Laundry, they are weighed and a laundry slip is prepared, showing the cost center or employee to be charged, and the weight. The laundry slips are sent to the cost accounting office, grouped by employee or cost center, and summarized at the close of the month. The amount charged to employees is deducted from the total cost of operating the Laundry. The remaining portion of costs is distributed to the various cost centers on a weight basis.

5. Engineering Department

The Engineering Department is comprised of four individual cost centers: the Cost Center for Engineering Administration; the Cost Center for Maintenance of Buildings, Grounds, and Equipment; the Cost Center for Electricity; and the Cost Center for Plant Operation.

The Cost Center for Engineering Administration includes the salary of the chief engineer, the expenses of the engineer's office, and any other departmental expenses not directly applicable to one of the individual cost centers. The total costs accumulated in the Cost Center for Engineering Administration are distributed evenly to the other three individual cost centers.

It has already been pointed out that the direct

expenses of the Cost Center for Maintenance of Buildings, Grounds, and Equipment are charged directly to the requesting cost center. In addition, it is now necessary to distribute the charge from the Cost Center for Engineering Administration on the basis of the total of the direct charges to the various cost centers.

The expenses accumulated in the Cost Center for Electricity are distributed to the cost centers on the basis of estimates of the total number of kilowatt hours of electricity used by the various cost centers. These estimates should be computed as the result of a study of the equipment throughout the hospital to determine the amount of electricity used.

The expenses of the Cost Center for Plant Operation, including such items as the production and distribution of heat, are distributed to the various cost centers using area as a base.

6. Dietary Department

The Dietary Department is responsible for purchasing all raw food, for preparing and serving meals to patients, and for preparing and serving meals through the pay cafeteria to hospital employees and other authorized personnel.

Within the Dietary Department it is necessary to have several individual or unit cost centers. Each of the three hospital buildings has its own kitchen as does the

pay cafeteria. Each kitchen, the bakery, and the pay cafeteria comprise individual dietary cost centers; and to absorb all other dietary expenses not directly applicable to one of these, a Cost Center for Dietary Administration is set up.

Most of the expenses of the Dietary Department are directly chargeable to the individual cost centers; these direct expenses include the raw food costs, salaries, cost of supplies, and depreciation charges. To the Cost Center for Dietary Administration are charged the expenses of the Administrative Dietitian's Office and the cost of those items which are not specifically applicable to the individual cost centers. The direct expenses of the Cost Center for Dietary Administration are distributed at the close of an accounting period to the individual cost centers on the basis of the total payroll of each.

The direct expenses of operating the bakery are distributed to the kitchens and the pay cafeteria on the basis of items actually requisitioned. Through an actual study of the cost of materials and labor going into each of the various types of orders, a standard cost per unit for each type of baked goods is used in pricing the requisitions. The difference at the close of the accounting period between the charges to the kitchens and the actual expenses of the bakery is charged or credited to the kitchens on the basis of the total estimated charges

to each.

The only preliminary distribution to be made regarding the Dietary Department is the apportionment of the excess cost of operating the pay cafeteria, which is not absorbed by cash receipts or credits. This excess cost is distributed to the other cost centers on the basis of the number of employees, nurses, or other staff personnel employed in each.

Exhibit 8

Worksheet I

Distribution of Expenses
of General Administration

COST CENTER	PRELIMINARY DISTRIBUTION			FINAL DISTRIBUTION		
	No. of Issues	Per- cent	Purchasing Expenses	No. of Issues	Per- cent	Purchasing Expenses
General Admin.						
Purchasing						
Housekeeping						
Laundry						
Engineering						
Dietary						
Administration						
Bakery						
Kitchen - 301						
Kitchen - 302						
Kitchen - 303						
Pay Cafeteria						
Operating Room						
X-Ray						
Laboratory						
Pharmacy						
Dental Clinic						
Physiotherapy						
Radium						
General Medical						
Nursing Care						
Nursing School						
Ambulance Service						
Research and Ed.						
Special Admin.						
Diabetic Hospital						
Cancer Hospital						
General Hospital						
Out-Patient Dept.						
Total						
			To Cost Schedule I., Col. 2			To Cost Schedule II., Col. 2

Exhibit 9

Worksheet II

Distribution of Expenses
of Purchasing Department

COST CENTER	PRELIMINARY DISTRIBUTION			FINAL DISTRIBUTION		
	No. of Issues	Per- cent	Purchasing Expenses	No. of Issues	Per- cent	Purchasing Expenses
General Admin.						
Purchasing						
Housekeeping						
Laundry						
Engineering						
Dietary						
Administration						
Bakery						
Kitchen - 301						
Kitchen - 302						
Kitchen - 303						
Pay Cafeteria						
Operating Room						
X-Ray						
Laboratory						
Pharmacy						
Dental Clinic						
Physiotherapy						
Radium						
General Medical						
Nursing Care						
Nursing School						
Ambulance Service						
Research and Ed.						
Special Admin.						
Diabetic Hospital						
Cancer Hospital						
General Hospital						
Out-Patient Dept.						
Total						
			To Cost Schedule I., Col. 2			To Cost Schedule II., Col. 2

Exhibit 10

Worksheet III

Distribution of Expenses
of Housekeeping Department

COST CENTER	PRELIMINARY DISTRIBUTION			FINAL DISTRIBUTION		
	No. of Issues	Per- cent	Purchasing Expenses	No. of Issues	Per- cent	Purchasing Expenses
General Admin.						
Purchasing						
Housekeeping						
Laundry						
Engineering						
Dietary						
Administration						
Bakery						
Kitchen - 301						
Kitchen - 302						
Kitchen - 303						
Pay Cafeteria						
Operating Room						
X-Ray						
Laboratory						
Pharmacy						
Dental Clinic						
Physiotherapy						
Radium						
General Medical						
Nursing Care						
Nursing School						
Ambulance Service						
Research and Ed.						
Special Admin.						
Diabetic Hospital						
Cancer Hospital						
General Hospital						
Out-Patient Dept.						
Total						
			To Cost Schedule I., Col. 2			To Cost Schedule II., Col. 2

Cost Schedule I

Month _____ Year _____

[illegible]

Exhibit II

Cost Schedule I

Distribution of Direct Expenses of
General Service Cost Centers

Month _____ Year _____

Total																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																				
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Cost Schedule II

Month _____ Year _____

[illegible]

Cost Schedule II

Distribution of Indirect Expenses of
General Service Cost Centers

Month _____ Year _____

Total Indirect Expenses Distributed	No. of Issues	Area	No. of Issues	Procurement	House- keeping	Laboratory and Infirmary	Total
On-Station Department							
General Hospital							
Cancer Hospital							
Isolation Hospital							
Credit Office							
Cashier's Office							
Patient's Records Office							
Social Service							
Library							
Volunteer Service							
Special Admin. Services							
Research and Education							
Nurse Service							
Nursing School							
Nursing Care							
General Medical Care							
Radiation							
Physiatrist							
Dental Clinic							
Pharmacy							
Laboratory							
X-Ray							
Operating Room							

Exhibit 13

Cost Schedule III

Distribution of Total Expenses
of Special Service Cost Centers

Month _____ Year _____

	Total	Diabetic	Cancer	General	Out-
	Expenses	Base	Hospital	Hospital	Patient

Operating Room
X-Ray
Laboratory
Pharmacy
Dental Clinic
Physiotherapy
Radium
General Medical Care
Nursing Care
Nursing School
Ambulance Service
Research and Education
Special Admin. Services

Total

Allocated Expenses-Schedule I
Allocated Expenses-Schedule II
Direct Expenses-Cost Ledgers
Salaries
Cost of Patients' Meals
Materials and Supplies
Depreciation on Equipment
Other

Total Costs of Major
Cost Centers

X. Final Distribution of Costs

After the preliminary distribution of the expenses of the General Service Cost Centers has been completed, the allocation of the expenses of the General Service Cost Centers which remain undistributed, and the allocation of the expenses applicable to the Special Service Cost Centers must be accomplished. The completion of the final distribution of costs will result in such cost information as the total cost of operating the Special Service Cost Centers, the total cost of rendering bed, board, and routine care to in-patients, and the total cost of rendering routine care to out-patients. Since most of the services rendered by the Special Service and the Major Cost Centers represent direct services to patients, direct charges can be made to the patients based on the cost information.

A. Distribution of Indirect Costs of General Service Cost Centers

The first step in the final distribution of costs is carried out by apportioning the undistributed costs of General Service Cost Centers as described below.

1. Administrative Department

The undistributed General Administrative expenses

remaining, after the preliminary apportionment, are allocated to the Special Service and Major Cost Centers on the basis of the payroll of each. As is illustrated on the worksheet for this final distribution, page 59, the percentage of the payroll of each cost center to the total payroll constitutes the basis for this final apportionment.

2. Purchasing Department

The undistributed Purchasing Department expenses remaining, after the preliminary distribution, are apportioned to the Special Service and Major Cost Centers on the basis of the number of issues made to each. This information is already recorded on the worksheet, for the same base was used in the preliminary distribution of Purchasing Department expenses.

3. Housekeeping Department

The undistributed Housekeeping Department expenses remaining, after the preliminary distribution, are apportioned to the Special Service and Major Cost Centers on the basis of area. This is the same base that was used in the preliminary distribution.

4. Laundry and Linens Department

The remaining expenses of the Laundry and Linens Department, after the preliminary apportionment, are distributed to the Special Service and Major Cost Centers on

the basis of the number of pounds of laundry done for each.

5. Engineering Department

The indirect expenses of the individual Cost Center for Maintenance are distributed to the various cost centers on the basis of the amount of the direct maintenance charges to each. The same bases as were used in the preliminary distribution are employed in apportioning the indirect expenses of the Cost Center for Electricity and the Cost Center for Plant Operation.

6. Dietary Department

The undistributed costs of the bakery are allocated to the various kitchens on the basis of the total estimated charges for baked goods received by each kitchen during the current accounting period. The undistributed costs of the Cost Center for Dietary Administration are allocated to the individual kitchens and to the pay cafeteria on the basis of the number of meals served by each. The undistributed costs of the pay cafeteria, which represent the excess of expenses over cash receipts and credits, are allocated to the Special Service and Major Cost Centers on the basis of the number of employees, nurses, or other staff personnel employed in each. The total costs for each individual kitchen are charged directly to the applicable Major Cost Centers by making the proper notations on the cost ledgers.

B. Distribution of Costs of Special Service Cost Centers

After this first step in the final distribution has been accomplished, the Special Service Cost Centers have been charged with all the costs attributable thereto. These total costs of operating the Special Service Cost Centers must be allocated to the Major Cost Centers in order to arrive at the over-all cost of rendering care to the in-patients and to the out-patients. This method of distribution of costs of each Special Service Cost Center is described below.

1. Operating Room

Because of the wide variety of operations which may be performed, as well as possible differences in the cost of a particular type of operation, care must be taken in distributing the costs of the Operating Room to the Major Cost Centers.

A study should be made regarding the average cost of the various types of operations using, as a basis, the number of man-minutes of staff time devoted to an operation, the amount of preparation prior to the operation and the amount of cleaning afterwards, the amount of materials and supplies used, and the instruments and equipment used. On the basis of this study each type of operation should

be placed in a group having a specific weight. Perhaps there would be five groups, with the weights ranging from one to five. At the close of an accounting period, the number of operations in each group is multiplied by its respective weight. On the basis of this weighting system the costs of the Operating Room are apportioned to the Major Cost Centers.

2. X-Ray Department

Services in the nature of making X-Ray plates and administering deep ray treatments are rendered by this department. The total costs of the X-Ray Department are apportioned to the Major Cost Centers on the basis of the number of plates made and the treatments rendered, each service being given similar weight.

3. Laboratory

Services performed in the Laboratory should be classified into groups with weights possibly ranging from one to four. The classification should be the result of a study based on the nature of each particular type of examination. On the basis of the weighting system employed, the costs of the Laboratory are apportioned to the Major Cost Centers.

4. Pharmacy

All pharmaceuticals issued to the Major Cost

Centers for general medical use require the preparation of a requisition. The pharmacist is responsible for pricing such requisitions, and on the basis of such priced requisitions, the Major Cost Centers are charged directly. The costs of those pharmaceuticals issued on a prescription basis are charged to the appropriate Major Cost Center as well as to the requesting patient. All drugs and any personal items carried in the pharmacy may be sold to hospital employees and visitors on a cash or credit basis. The total of the sales for cash and credit and the direct charges attributed to the Major Cost Centers is deducted from the total cost of operating the Pharmacy. The balance, or excess cost, is distributed to the Major Cost Centers on the basis of the number of requisitions and prescriptions filled.

5. Dental Clinic

When patients are treated in the Dental Clinic, each treatment is given a certain number of points on the basis of the time consumed and the type of treatment administered. For example, an X-Ray picture may have a point rating of seven, whereas a dental prophylactic treatment may have a rating of two. Distribution of the costs of the Dental Clinic is made on the basis of this point rating system to the Major Cost Centers.

6. Physiotherapy Division

The Physiotherapy unit renders such service to patients as massages, ultra-violet and heat treatments, radio-therapy, diathermy, and whirlpool treatments. Since a great variance may occur between different services of this unit, it is necessary to weight each treatment, giving consideration to the cost of personal services, the electrical consumption, and the type of equipment used. At the close of the accounting period the number of treatments with the same point rating or weight is multiplied by the applicable point rating. After determining the total number of points, the costs of the Physiotherapy Division are distributed to the Major Cost Centers on the basis of the number of points attributable to each.

7. Radium Unit

Almost all radium treatments are rendered to patients located in Major Cost Center 302, the Cancer Hospital. However, in order to arrive at reasonable charges to patients, and to account for any treatments given to patients of the other three Major Cost Centers, a point or weighting system is used, taking into consideration the personal services and the time for the treatment. Costs of the Radium Unit are distributed to the Major Cost Centers on this weighted treatment basis.

8. Medical Care

The expenses of the Medical Care Cost Center are apportioned to the Major Cost Centers on the basis of the actual number of hours or days of service the various staff personnel spend in the cost centers. The costs to be distributed include the salaries and other expenses of internes and residents, and any indirect expenses charged to the cost center.

9. Nursing Care

Time spent by nursing personnel in the Major Cost Centers is the basis for apportioning the costs of this cost center. However, since there is a variance in salaries, of graduate nurses, nursing attendants, and orderlies, it is necessary to apply a weighting system to the several classes of service. For example, it may be equitable to give a weight of four to graduate nurses' time, three to nursing attendants' time, and two to orderlies' time.

10. Nursing School

The costs of the Nursing School are distributed to the Major Cost Centers on the basis of the time that student nurses render services to the cost centers. Only that portion of the cost of the Nursing School not absorbed by tuition and other charges to students is allocated to the Major Cost Centers.

11. Ambulance Service

The expenses of the Ambulance Service Cost Center are apportioned to the Major Cost Centers on the basis of the number of miles driven for patients in each cost center.

12. Medical Research and Education

Cost of the Medical Research and Education Cost Center are distributed to the Major Cost Centers on the basis of an analysis of the services rendered to each. This analysis should be made in cooperation with appropriate staff personnel and the hospital Administrator.

13. Special Administrative Services for Patients

The costs of the Special Administrative Services, which include Volunteer Service, the Credit Office, Social Service, the Patients' Records Office, and the Cashier's Office, are distributed to the Major In-Patients Cost Centers on the basis of the relative number of patient days for the accounting period.

The services rendered by the Special Service Cost Centers are, for the most part, professional services rendered directly to patients, and, therefore, are directly chargeable to the patients. Those special service costs not directly chargeable to patients must be absorbed in the daily rate.

XI. The Cost Report (1)

As in any accounting system, so in a cost accounting system for a hospital, the records of transactions during the accounting period provide the essential information required in the preparation of reports submitted to the administrative officials. Cost reports should be prepared immediately at the close of each accounting period in order that unfavorable discrepancies in costs can be quickly corrected, and in order that rates can be adjusted as the immediate situation demands.

Distribution of the cost reports should be made to the hospital Administrator, to the Assistant Administrator, and to certain of the hospital trustees. Heads of departments and other supervisory personnel should be provided with that portion of the report that deals with the one particular cost center with which they are concerned.

A. Cost Statements for Major Cost Centers

1. Summary Cost Statement

A summary cost statement is prepared showing the total costs for each Major Cost Center. This report also

shows the cost per patient day for each in-patient Major Cost Center, and the cost per visit of the out-patient Major Cost Center. Specifically, this statement lists information as to the total number of patient days of care for each cost center, the total costs exclusive of charges made to patients for services received from Special Service Cost Centers, the cost per patient day exclusive of direct charges for services of Special Service Cost Centers, the amount of the direct charges, the gross costs, and the cost per patient day on a gross cost basis. This summary statement of costs of Major Cost Centers is illustrated on page 84.

Although the summary report shows the total costs of operating the hospital, as well as the cost per patient day, it is necessary to have more detailed information of the make-up of the costs. This detailed information is presented in several individual reports for each Major Cost Center.

2. Diabetic Hospital, Report of Cost of Administration

This statement shows the cost, by elements, of the administrative unit of the Diabetic Hospital. The portion of the cost of General Administration attributable to this particular unit is also designated. The report shows the percentage that each element bears to the total cost of administration for the Diabetic Hospital. Finally,

at the bottom of the report is shown the percentage that the total cost of administration bears to the total cost of the Diabetic Hospital. This report is illustrated on page 85.

3., Diabetic Hospital, Cost of Care and Treatment of Patients

This statement, illustrated on pages 86 and 87, shows in detail the cost of rendering professional and non-professional care to patients in the Diabetic Hospital. The percent that the cost of each element of care bears to the total cost of care and treatment is shown, as well as the cost per patient day for each element.

Statements, which are approximately the same in form as the Diabetic Hospital Statements, are prepared for each of the other Major Cost Centers including the Out-Patient Department.

B. Cost Statements for Special Service Cost Centers

Statements are prepared for each Special Service Cost Center showing the total cost of carrying on the activity, detailed information as to the cost of each of the various elements, and the percent that each elemental cost bears to the total cost. The statements for all of the

Special Service Cost Centers are illustrated on pages 88 to 100. Since most of the statements follow a general pattern, consideration is given in the following discussion only to that data which are specially significant for each particular cost center.

1. Cost of Operating Room

In addition to the detailed cost information shown, an analysis of the Operating Room charges is presented, showing for each class of operation, the number of operations performed, the charge, and the total charge. The total of the charges for all groups is also shown, allowing a comparison to be made between the total costs and the total charges.

2. Cost of X-Ray Department

The Analysis of Charges section of this statement shows the total number of X-Ray plates made and the total number of treatments rendered, the charge per exposure or treatment, and the total X-Ray charges. The unit cost for each element of cost is shown in a separate column.

3. Cost of Laboratory

Detailed information is presented relative to the number of examinations performed in each Laboratory group, the charge for each group, and the total charges for each group as well as for all groups.

4. Cost of Pharmacy

As an element of cost the statement for the cost of the Pharmacy shows the cost of the goods issued or sold. Information is also presented regarding charges to patients and sales for cash or credit.

5. Cost of Dental Clinic

In addition to the cost data presented, information is given relative to the number of units of dental service rendered, the charge per unit, and the total charges. Statistical data as to the number of prophylactic treatments, X-Rays, and extractions are also shown.

6. Cost of Physiotherapy Division

The cost per weighted unit is presented along with the detailed cost information. The Analysis of Charges section shows the total number of weighted units, the charge per weighted unit, and the total charges.

7. Cost of Radium Unit

In addition to cost data, this statement presents information relative to the charges made on a weighted unit basis.

8. Cost of Nursing School

Information pertaining to the cost per student is shown in this statement. Sufficient data is presented

to permit comparison of costs and charges to students.

9. Cost of Ambulance Service

This statement shows the cost per mile for each element of cost, the number of miles run, the number of passengers carried, and the cost per passenger.

10. Cost of Medical Research and Education

Generally the Division of Medical Research and Education does not receive any charges from patients or others. This statement, therefore, reveals cost information alone.

11. Cost of Special Administrative Services for Patients

This statement provides cost data for each of the Special Administrative Activities, presenting the information detailed in the basic cost elements.

12. Cost of General Medical Care

This statement shows the detailed costs of providing general medical care to patients.

13. Cost of Nursing Care

The detailed costs of furnishing nursing care to patients is provided in this statement, with data relative to the cost per patient day presented.

C. Statements for General Service Cost Centers

Statements are also prepared for General Service Cost Centers showing the cost of each of the various elements, the total cost of operating the cost center, and the percent that each element of cost bears to the total. The statements for all of the General Service Cost Centers are illustrated on pages 101 to 110. Consideration is given in the following paragraphs to the significant features of each statement.

1. Cost of General Administration

In addition to the percent that each element of cost bears to the total cost of General Administration, the statement shows the percent that the total cost of General Administration bears to the total cost of operating the hospital.

2. Cost of Purchasing Department

The statement shows significant statistical data relative to the cost of all purchases made, the total number of purchases, the average cost to purchase, and the general cost information.

3. Cost of Housekeeping Department

This statement shows the percent that each element of cost of Housekeeping bears to the total cost of operating

the hospital.

4. Cost of Laundry and Linens Department

In addition to the regular cost information, this statement shows the cost per pound of laundry for each element of cost.

5. Cost of Engineering Department

The Engineering Department Statement is comprised of four sections, one for each of the four individual cost centers. The cost for the various elements in each cost center, the total cost of each cost center, and the total cost of the Engineering Department is presented. In addition to showing the percent that each element of cost bears to the total cost for each individual cost center, the percent that each element of cost bears to the total cost of operating the Engineering Cost Center is shown.

6. Cost of Dietary Department

Separate statements must be prepared for each of the individual Dietary Cost Centers. The statements for Dietary Administration and for the Bakery present the percent that the total cost of each activity bears to the total cost of the Dietary Department. The statements showing the cost of the various kitchens and of the pay cafeteria give the cost per meal served for each

element of cost, presenting the opportunity for critical comparison between the units. The Pay Cafeteria Statement contains a section for the Analysis of Cafeteria Charges. The data presented includes the average charge for each cash meal served, the average charge for each non-cash meal served, the total charges, and the average charge per meal served.

The Cost Report

Summary Cost Statement Costs of Major Cost Centers

Month _____ Year _____

	COST CENTER				
	301	302	303	304	
				Out-	
	Cancer	Diabetic	General	Patient	Total
Number of Patient Days					
Net Cost (Excluding Direct Charges)					
Amount					
Cost Per Patient Day					
Direct Charges for Special Services					
Gross Cost (Including Direct Charges)					
Amount					
Cost Per Patient Day					
Number of Patient Days by Classes					
Private					
Semi-Private					
Ward					
Total					

The Cost Report

Diabetic Hospital Report of Cost of Administration

Month _____ Year _____

Description	Amount	Percent of Diabetic Administrative Expense
Cost of Personal Services		
Salaries		
General Administration		
Dietary Department		
Other		
Total		
Other Costs		
Purchasing Department		
Housekeeping Department		
Engineering Department		
Materials, Supplies, and Parts		
Depreciation of Plant and Equipment		
Other		
Total		
Total Cost		
Percent of Cost of Administration to Total Cost of Diabetic Hospital		

The Cost Report

Diabetic Hospital Cost of Care and Treatment of Patients

Month _____ Year _____

Description	Amount	Percent of Total Cost of Care and Treatment	Cost Per Patient Day
Professional Care			
Operating Room			
X-Ray Department			
Laboratory			
Pharmaceuticals			
Dental Clinic			
Physiotherapy Division			
Radium Unit			
General Medical Care			
Nursing Care			
Nursing School			
Other			
Total			
Non-Professional Care			
Special Admin. Services			
General Administration			
Purchasing Department			
Housekeeping Department			
Laundry and Linens			
Engineering Department			
Dietary Department			
Medical Research and Ed.			
Ambulance Service			
Other			
Total			
Total Cost (Excluding Direct Charges)			
Number of Patient Days			

(Continued on Following Page)

The Cost Report
Diabetic Hospital
Cost of Care and Treatment of Patients
(Continued)

	Amount	Cost Per Patient Day
Total Cost (Preceding Page)		
Direct Charges to Patients for		
Special Services		
Operating Room		
X-Ray Department		
Laboratory		
Pharmaceuticals		
Dental Clinic		
Physiotherapy Division		
Radium Unit		
Nursing Care		
Ambulance Service		
Other		
Total Direct Charges		
Total Cost (Including Direct Charges)		

The Cost Report

Cost of Operating Room

Month _____ Year _____

Description	Amount	Percent of Cost of Operating Room
Cost of Personal Services		
Salaries		
General Administration		
Dietary Department		
Laundry and Linens		
Other		
Total		
Other Costs		
Purchasing Department		
Housekeeping Department		
Engineering Department		
Materials, Supplies, and Parts		
Pharmaceuticals		
Purchased Services		
Depreciation of Plant and Equipment		
Other		
Total		
Total Cost		

Analysis of Charges

Operation Group	Number of Operations Performed	Charge	Total Charges
#1			
#2			
#3			
#4			
#5			
Total			

The Cost Report

Cost of X-Ray Department

Month _____ Year _____

Description	Amount	Percent of X-Ray Cost	Cost Per Unit
Cost of Personal Services			
Salaries			
General Administration			
Dietary Department			
Laundry and Linens			
Other			
Total			
Other Costs			
Purchasing Department			
Housekeeping Department			
Engineering Department			
Materials, Supplies, and Parts			
Pharmaceuticals			
Purchased Services			
Depreciation of Plant and Equipment			
Other			
Total			
Total Cost			

Analysis of Charges

Number of X-Ray Plate Exposures
Number of Deep Therapy Treatments

Total Number of Exposures and Treatments

Charge for Exposure or Treatment

Total Charges of X-Ray Department

The Cost Report

Cost of Laboratory

Month _____ Year _____

Description	Amount	Percent of Laboratory Cost
Cost of Personal Services		
Salaries		
General Administration		
Dietary Department		
Laundry and Linens		
Other		
Total		
Other Costs		
Purchasing Department		
Housekeeping Department		
Engineering Department		
Materials, Supplies, and Parts		
Pharmaceuticals		
Purchased Services		
Depreciation of Plant and Equipment		
Other		
Total		
Total Cost		

Analysis of Charges

Laboratory Group	Number of Examinations	Charge	Total Charges
#1			
#2			
#3			
#4			
Total			

The Cost Report

Cost of Pharmacy

Month _____ Year _____

Description	Amount	Percent Of Pharmacy Cost
Cost of Personal Services		
Salaries		
General Administration		
Dietary Department		
Laundry and Linens		
Other		
Total		
Other Costs		
Cost of Goods Issued or Sold		
Purchasing Department		
Housekeeping Department		
Engineering Department		
Materials, Supplies, and Parts		
Purchased Services		
Depreciation of Plant and Equipment		
Other		
Total		
Total Cost		

Analysis of Charges

Charges to Patients
Cash and Credit Sales
 Total Charges

Number of Requisitions Filled
Number of Prescriptions Filled

The Cost Report

Cost of Dental Clinic

Month _____ Year _____

Description	Amount	Percent of Dental Clinic Cost
Cost of Personal Services		
Salaries		
General Administration		
Dietary Department		
Laundry and Linens		
Other		
Total		
Other Costs		
Purchasing Department		
Housekeeping Department		
Engineering Department		
Materials, Supplies, and Parts		
Pharmaceuticals		
Purchased Services		
Depreciation of Plant and Equipment		
Other		
Total		
Total Cost		

Analysis of Charges

Total Number of Weighted Dental Units
 Charge per Weighted Unit

Total Charge

Number of Prophylactic Treatments
 Number of X-Rays
 Number of Extractions

The Cost Report

Cost of Physiotherapy Division

Month _____ Year _____

Description	Amount	Percent of Physiotherapy Unit	Cost Per Weighted Unit
Cost of Personal Services			
Salaries			
General Administration			
Dietary Department			
Laundry and Linens			
Other			
Total			
Other Costs			
Purchasing Department			
Housekeeping Department			
Engineering Department			
Materials, Supplies, and Parts			
Pharmaceuticals			
Purchased Services			
Depreciation of Plant and Equipment			
Other			
Total			
Total Cost			

Analysis of Charges

Number of Weighted Physiotherapy Units
Charge per Weighted Unit

Total Charges

Number of Massages
Number of Ultra-Violet and Heat Treatments
Number of Radio-Therapy Treatments
Number of Diathermy Treatments
Number of Whirlpool Treatments

The Cost Report

Cost of Radium Unit

Month _____ Year _____

Description	Amount	Percent of Radium Unit
Cost of Personal Services		
Salaries		
General Administration		
Dietary Department		
Laundry and Linens		
Other		
Total		
Other Costs		
Purchasing Department		
Housekeeping Department		
Engineering Department		
Materials, Supplies, and Parts		
Cost of Radium Used		
Purchased Services		
Depreciation of Plant and Equipment		
Other		
Total		
Total Cost		

Analysis of Charges

Number of Weighted Radium Units
 Charge per Unit

Total Charges

The Cost Report
 Cost of Nursing School
 Month _____ Year _____

Description	Amount	Percent of Nursing School Cost	Cost Per Student
Cost of Personal Services			
Salaries			
General Administration			
Dietary Department			
Laundry and Linens			
Other			
Total			
Other Costs			
Purchasing Department			
Housekeeping Department			
Engineering Department			
Materials, Supplies, and Parts			
Purchased Services			
Depreciation of Plant and Equipment			
Other			
Total			
 Total Cost			

Analysis of Charges

Tuition Applicable to Current Month
 Charges for Books and Supplies
 Other

Total Charges

Number of Student Nurses

The Cost Report

Cost of Ambulance Service

Month _____ Year _____

Description	Amount	Percent of Ambulance Cost	Cost Per Mile
Cost of Personal Services			
Salaries			
General Administration			
Dietary Department			
Laundry and Linens			
Other			
Total			
Other Costs			
Purchasing Department			
Housekeeping Department			
Engineering Department			
Materials and Supplies			
Pharmaceuticals			
Gasoline and Oil			
Purchased Services			
Depreciation of Plant and Equipment			
Other			
Total			
Total Cost			

Analysis of Charges

Number of Chargeable Miles
Charge per Mile

Total Charges

Total Number of Miles Run
Number of Passengers Carried
Cost per Passenger

The Cost Report

Cost of Medical Research and Education

Month _____ Year _____

Description	Amount	Percent of Activity Cost
Cost of Personal Services		
Salaries		
General Administration		
Dietary Department		
Other		
Total		
Other Costs		
Purchasing Department		
Housekeeping Department		
Engineering Department		
Materials and Supplies		
Purchased Services		
Depreciation of Plant and Equipment		
Other		
Total		
 Total Cost		

The Cost Report

Cost of Special Administrative
Services for Patients

Month _____ Year _____

Description	Amount	Percent of Activity Cost
Volunteer Service		
Salaries		
Charges from Other Cost Centers		
Other		
Total		
Library		
Salaries		
Charges from Other Cost Centers		
Other		
Total		
Social Service		
Salaries		
Charges from Other Cost Centers		
Other		
Total		
Patients' Records Office		
Salaries		
Materials and Supplies		
Charges from Other Cost Centers		
Other		
Total		
Cashier's Office		
Salaries		
Materials and Supplies		
Charges from Other Cost Centers		
Other		
Total		
Credit Office		
Salaries		
Materials and Supplies		
Charges from Other Cost Centers		
Other		
Total		
Total Charges		

The Cost Report

Cost of General Medical Care

Month _____ Year _____

Description	Amount	Percent of Medical Care Cost	Cost Per Patient Day
Cost of Personal Services			
Salaries			
General Administration			
Dietary Department			
Laundry and Linens			
Other			
Total			
Other Costs			
Purchasing Department			
Materials and Supplies			
Pharmaceuticals			
Other			
Total			
 Total Cost			

Total Number of Patient Days

The Cost Report

Cost of Nursing Care

Month _____ Year _____

Description	Amount	Percent of Nursing Care Cost	Cost Per Patient Day
Cost of Personal Services			
Salaries			
General Administration			
Dietary Department			
Laundry and Linens			
Other			
Total			
Other Costs			
Purchasing Department			
Materials and Supplies			
Pharmaceuticals			
Other			
Total			
Total Cost			

Total Number of Patient Days

The Cost Report

Cost of General Administration

Month _____ Year _____

Description	Amount	Percent of General Administrative Cost
Cost of Personal Services		
Salaries		
Dietary Department		
Other		
Total		
Other Costs		
Purchasing Department		
Housekeeping Department		
Engineering Department		
Materials, Supplies, and Parts		
Depreciation of Plant and Equipment		
Other		
Total		
Total Cost		

Percent that total General Administrative Cost bears
to total cost of operating the Hospital

The Cost Report

Cost of Purchasing Department

Month _____ Year _____

Description	Amount	Percent of Purchasing Cost
Cost of Personal Services		
Salaries		
General Administration		
Dietary Department		
Other		
Total		
Other Costs		
Housekeeping Department		
Engineering Department		
Materials, Supplies, and Parts		
Purchased Services		
Depreciation of Plant and Equipment		
Other		
Total		
Total Cost		
Number of Purchases Made		
Value of Purchases Made		
Average Cost to Purchase		

The Cost Report

Cost of Housekeeping Department

Month _____ Year _____

Description	Amount	Percent of Cost of Housekeeping	Percent of Cost of Operating Hospital
Cost of Personal Services			
Salaries			
General Administration			
Dietary Department			
Laundry and Linens			
Other			
Total			
Other Costs			
Purchasing Department			
Engineering Department			
Materials, Supplies, and Parts			
Purchased Services			
Depreciation of Plant and Equipment			
Other			
Total			
Total Cost			

The Cost Report

Cost of Laundry and Linens Department

Month _____ Year _____

Description	Amount	Percent of Laundry Cost	Cost Per Pound
Cost of Personal Services			
Salaries			
General Administration			
Dietary Department			
Other			
Total			
Other Costs			
Purchasing Department			
Housekeeping Department			
Engineering Department			
Materials, Supplies, and Parts			
Depreciation of Plant and Equipment			
Other			
Total			
Total Cost			
Charges to Employees			
Net Cost			
Total Number of Pounds Laundered			

The Cost Report
 Cost of Engineering Department
 Month _____ Year _____

Description	Amount	Percent of Cost of Individual Center	Percent of Cost of Engineering Center
Cost Center for Administration			
Salaries			
General Administration			
Dietary Department			
Purchasing Department			
Materials, Supplies, and Parts			
Purchased Services			
Depreciation of Plant and Equipment			
Other			
Total			
Cost Center for Maintenance of			
Buildings, Grounds, and Equipment			
Salaries			
Materials, Supplies, and Parts			
Purchased Services			
Depreciation of Plant and Equipment			
Other			
Total			
Cost Center for Electricity			
Salaries			
Materials, Supplies, and Parts			
Purchased Services			
Cost of Electricity			
Depreciation of Plant and Equipment			
Other			
Total			

(Continued on Following Page)

The Cost Report

Cost of Engineering Department (Continued)

Description	Amount	Percent of Cost of Individual Center	Percent of Cost of Engineering Center
Cost Center for Plant Operation			
Salaries			
Materials, Supplies, and Parts			
Purchased Services			
Cost of Water			
Cost of Fuel			
Depreciation of Plant and Equipment			
Other			
Total			
Total Engineering Department Cost			

Statistical Information

Amount of Electricity in Kilowatt Hours
 Cost per Kilowatt Hour
 Amount of Fuel Used in Gallons

The Cost Report

Cost of Dietary Department Cost Center for Administration

Month _____ Year _____

Description	Amount	Percent of Dietary Ad- ministration Cost
Cost of Personal Services		
Salaries		
General Administration		
Laundry and Linens		
Other		
Total		
Other Costs		
Purchasing Department		
Housekeeping Department		
Engineering Department		
Materials, Supplies, and Parts		
Purchased Services		
Depreciation of Plant and Equipment		
Other		
Total		
Total Cost		

Percent that Dietary Administration cost bears to
total cost of Dietary Department

The Cost Report

Cost of Dietary Department Bakery

Month _____ Year _____

Description	Amount	Percent of Bakery Cost
Cost of Personal Services		
Salaries		
Dietary Administration		
General Administration		
Laundry and Linens		
Other		
Total		
Other Costs		
Purchasing Department		
Housekeeping Department		
Engineering Department		
Materials, Supplies, and Parts		
Raw Food		
Purchased Services		
Depreciation of Plant and Equipment		
Other		
Total		
Total Cost		

Percent that Bakery cost bears to total cost
of Dietary Department

The Cost Report

Cost of Dietary Department Kitchen 301 (1)

Month _____ Year _____

Description	Amount	Percent of Kitchen Costs	Cost Per Meal
Cost of Personal Services			
Salaries			
Dietary Administration			
General Administration			
Laundry and Linens			
Other			
Total			
Other Costs			
Purchasing Department			
Housekeeping Department			
Engineering Department			
Materials, Supplies, and Parts			
Raw Food			
Baked Goods			
Purchased Services			
Depreciation of Plant and Equipment			
Other			
Total			
Total Cost			

Total Number of Meals Served

1. Similar statements are prepared for each of the other individual kitchens.

The Cost Report

Cost of Dietary Department Pay Cafeteria

Month _____ Year _____

Description	Amount	Percent of Cafeteria Cost	Cost Per Meal
Cost of Personal Services			
Salaries			
Dietary Administration			
General Administration			
Laundry and Linens			
Other			
Total			
Other Costs			
Purchasing Department			
Housekeeping Department			
Engineering Department			
Materials, Supplies, and Parts			
Raw Food			
Baked Goods			
Purchased Services			
Depreciation of Plant and Equipment			
Other			
Total			
Total Cost			
Total Number of Meals Served			
		Analysis of Charges	
Total Cash Receipts			
Number of Cash Meals Served			
Average Cash Charge Per Meal			
Credit for Nursing School			
Other Credits			
Total Non-Cash Charges			
Number of Non-Cash Meals Served			
Average Non-Cash Charge Per Meal			
Total Charges			
Average Charge Per Meal			

XII. Conclusion

Until recently, hospital administrators have shown interest, relative to cost problems, only in historical costs and in those cost procedures supplying comparatively insignificant historical and comparative data. Cost control is effective only in-so-far as the various elemental costs are controlled; therefore, it is essential that procedures be adopted which will provide for the proper grouping of costs to departments, activities, or cost centers, and for a reasonable allocation of all expenses to such centers. Since it is essential to control expenses in order to achieve efficient hospital administration, this thesis has approached cost control from the elemental but basic problem of expense distribution.

Because of the recent rise in the level of business activity accompanied by the sharp increase in costs of operating, and because of the decrease in the trend of large private contributions and endowments, the costs of providing services in the hospital field have become of primary concern to the administrative officials. In addition, in light of the tendency to provide a broader range of medical services to patients, there exists the problem of ascertaining the additional expenses that have been or will be incurred

in providing any new services.

The broad function of a hospital cost accounting system is to inform the administrative officials as to past performance, present performance, and probable future performance relative to detailed costs of providing specific services. It has been the purpose of this thesis to properly develop a cost accounting system that provides the information that such a method of measurement is intended to provide.

After a cost accounting system has been adapted to the particular needs of a hospital, it is essential that it be effectively administered. The hospital administrators must understand what the cost data reveal and must cause any necessary remedial action to take place. The full benefits of cost accounting become evident as administrators become cost conscious, and only if cooperation and collective effort exist among all the administrative officials of the hospital. Even though the profit motive is disregarded in making hospital services available to patients, it is the responsibility of every department and activity to render maximum and best services that are consistent with the financial means of the hospital.

In conclusion, it is to be emphasized that detailed cost data constitute an invaluable tool in hospital adminis-

tration, and specifically in controlling expenses. As a point of caution, however, hospital administrators should not become so absorbed in the consideration of cost data that they lose sight of their prime responsibility, providing the best medical care for the hospital patients. (1)

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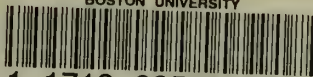
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